

**REPORT OF THE AUDIT OF THE
PENDLETON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2007**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE
PENDLETON COUNTY FISCAL COURT

June 30, 2007

The Auditor of Public Accounts has completed the audit of the Pendleton County Fiscal Court for fiscal year ended June 30, 2007.

We have issued an unqualified opinion on the governmental activities, discretely presented component unit, each major fund, and aggregate remaining fund information of Pendleton County, Kentucky.

Financial Condition:

The fiscal court had total net assets of \$5,824,183 as of June 30, 2007. The fiscal court had unrestricted net assets of \$2,887,419 in its governmental activities as of June 30, 2007. The fiscal court had total debt principal as of June 30, 2007 of \$5,488,174 with \$146,696 due within the next year.

Deposits:

The Fiscal Court's deposits on February 12, 2007, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$175,988

The Fiscal Court's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Fiscal Court's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Henry W. Bertram, Pendleton County Judge/Executive

Members of the Pendleton County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Pendleton County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Pendleton County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Pendleton County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Pendleton County, Kentucky, as of June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Henry W. Bertram, Pendleton County Judge/Executive
Members of the Pendleton County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pendleton County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated April 21, 2008 on our consideration of Pendleton County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

April 21, 2008

PENDLETON COUNTY OFFICIALS

For The Year Ended June 30, 2007

Fiscal Court Members:

Henry W. Bertram	County Judge/Executive
Bobby Fogle	Magistrate
Gary Veirs	Magistrate
Alan Whaley	Magistrate
Stacey Wells	Magistrate

Other Elected Officials:

Jeff Dean	County Attorney
Ken Kells	Jailer
Rita Spencer	County Clerk
Mike Redden	Circuit Court Clerk
Craig Peoples	Sheriff
John Steele	Property Valuation Administrator
John Peoples	Coroner

Appointed Personnel:

Vicky King	County Treasurer
Sylvia McClanahan	Finance Officer

Management's Discussion and Analysis

June 30, 2007

The financial management of Pendleton County, Kentucky offers readers of Pendleton County's financial statements this narrative overview and analysis of the financial activities of Pendleton County for the fiscal year ended June 30, 2007. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights

- Pendleton County had total net assets of \$5,824,183 as of June 30, 2007. The fiscal court had unrestricted net assets of \$2,887,419 in its governmental activities as of June 30, 2007. Total debt principal as of June 30, 2007 was \$5,488,174 with \$146,696 due within one year.
- The government's total net assets increased by \$1,138,822 from the prior year. This increase is primarily due to the additions of the county's capital assets and infrastructure assets.
- At the close of the current fiscal year, Pendleton County's balance sheet reported a fund balance of \$6,859,015.
- Pendleton County's total indebtedness at the close of fiscal year June 30, 2007 was \$5,488,174 of which \$5,341,478 is long-term debt (due after 1 year) and \$146,696 is short-term debt (to be paid within 1 year). Debt increases were \$4,341,311 during the year due to construction in progress on the new judicial center.
- In addition Pendleton County purchased equipment for the Road Department, County Offices, The Emergency Operations Center, County Dispatch and the Ambulance Department in the amount of \$44,058. Several county roads were blacktopped at a cost to the county of \$910,669. The county also purchased three county vehicles at a total cost of \$55,987.
- The Fiscal court received \$25,834 in litter abatement funds to be used to clean up litter from state and county roads.

**Pendleton County
Management's Discussion and Analysis
June 30, 2007
(Continued)**

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to Pendleton County's basic financial statements. Pendleton County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. These schedules include prior and current comparisons of general revenues by major source, and program expenses by function.

Government-wide Financial Statements The *government-wide financial statements* are designed to provide readers with a broad overview of Pendleton County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Pendleton County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Pendleton County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Pendleton County's governmental activities include general governmental, protection to persons and property, roads, recreation, and social services.

The County closed its one business type activity - the operation of a jail canteen. After much discussion with and direction from the auditors office, the Pendleton County Jail Canteen Fund was closed and all funds were transferred into the Jail fund.

Pendleton County
Management's Discussion and Analysis
June 30, 2007
(Continued)

Government-wide Financial Statements (Continued)

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Pendleton County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Pendleton County can be divided into one category: *governmental funds*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Pendleton County maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the government fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Road Fund, LGEA Fund, and the Public Properties Corporation Justice Center Project Fund all of which are considered major funds by the County. The Jail Fund, Ambulance Fund, Emergency 911 Fund, Mental Health Mental Retardation Fund, and Micro Fund are considered non-major funds and are represented in a combined form.

Pendleton County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

Notes to the Financial Statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Pendleton County
Management's Discussion and Analysis
June 30, 2007
(Continued)

Government-wide Financial Statements (Continued)

Government-wide Financial Analysis

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Pendleton County Net Assets

	Governmental Activities	
	2006	2007
Assets		
Current and Other Assets	\$ 2,687,509	\$ 6,864,015
Capital Assets	3,144,715	4,448,342
Total Assets	5,832,224	11,312,357
Liabilities		
Current Liabilities	158,689	146,696
Long-term Liabilities	988,174	5,341,478
Total Liabilities	1,146,863	5,488,174
Net Assets		
Invested in Capital Assets, Net of Related Debt	1,997,852	2,936,764
Restricted	75,000	
Unrestricted	2,612,509	2,887,419
Net Assets	<u>\$ 4,685,361</u>	<u>\$ 5,824,183</u>

Changes in Net Assets

Governmental Activities. Pendleton County's net assets increased by \$1,138,822 in fiscal year 2007. Key elements of this are as follows:

- Current assets and cash increased by \$4,176,506.
- Investment in capital assets, net of related debt decreased \$3,102,684 primarily due to additions in infrastructure assets, other capital assets and construction in progress of new judicial center.
- Current and long-term liabilities increased by \$4,341,311.
- Revenues were \$5,107,119 as reflected in the Statement of Activities.
- Expenditures totaled \$3,968,297 as reflected in the Statement of Activities.

Pendleton County
Management's Discussion and Analysis
June 30, 2007
(Continued)

Changes in Net Assets (Continued)

Pendleton County Statement of Activities

	Governmental Activities	
	2006	2007
Program Revenues		
Charges for Services	\$ 574,922	\$ 737,395
Operating Grants and Contributions	1,541,845	1,676,725
Capital Grants and Contributions	1,569,411	535,724
Total Program Revenues	3,686,178	2,949,844
General Revenues		
Taxes	1,349,053	1,734,934
Excess Fees	43,773	52,565
Unrestricted Investment Revenues	100,735	281,867
Miscellaneous Revenues	34,667	87,909
Total General Revenues	1,528,228	2,157,275
Total Revenues	5,214,406	5,107,119
Program Expenses		
General Government	1,056,755	1,184,186
Protection to Persons and Property	1,696,021	1,433,890
General Health and Sanitation	641,371	350,609
Social Services	15,460	26,751
Recreation and Culture	218,353	124,625
Roads	685,779	682,901
Airports	10,000	5,000
Debt Service	52,310	158,980
Capital Projects	2,648	1,355
Total Expenses	4,378,697	3,968,297
Change In Net Assets	835,709	1,138,822
Net Assets - Beginning (Restated)	3,849,652	4,685,361
Net Assets - Ending	\$ 4,685,361	\$ 5,824,183

As noted earlier, Pendleton County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Pendleton County
Management's Discussion and Analysis
June 30, 2007
(Continued)

Governmental Funds Overview. The focus of Pendleton County governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the June 30, 2007 fiscal year, the combined ending fund balance of County governmental funds was \$6,859,015. 39% of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance (\$4,186,477) is reserved to indicate that it is not available for new spending because it is committed to short-term debt and construction in process on the new judicial center.

The County has 4 major governmental funds. These are 1) General Fund; 2) Road Fund; 3) LGEA Fund; 4) Public Properties Corporation-Court Facilities Project Fund. There are 5 non-major funds. They are the Jail Fund, Ambulance Fund, Emergency 911 Fund, the Mental Health Mental Retardation Fund, and the Micro Fund.

1. The General Fund is the chief operating fund of Pendleton County. At the end of the June 30, 2007 fiscal year, fund balance of the General Fund was \$810,668. The county received \$655,389 in Real Property tax revenues. This accounts for approximately 30% of the general fund revenue. \$133,062 was received from Motor Vehicle taxes and accounts for approximately 6% of the county's general fund revenues. Various other taxes and service fees make up the remaining 64% of revenues.
2. The Road Fund is the fund related to county road and bridge construction and maintenance. The Road Fund had \$628,420 in fund balance at June 30, 2007. The fiscal year 2007 expenditures for road projects were \$1,563,443.
3. The LGEA Fund had a fund balance of \$1,195,085; this includes Debt Reserve CD's in the amount of \$728,893.
4. The Public Properties Corporation Court Facilities Project Fund is used to account for the activity and the debt related to the Pendleton County Court Facilities Project. This account had an ending balance of \$4,041,596.
5. The Jail Fund had a fund balance at June 30, 2007 of \$42,779. The General Fund contributed \$330,000 to the jail operations. Total revenue received in the Jail Fund was \$83,914.
6. The Ambulance Fund was created to provide ambulance service to the residents of Pendleton County. The Fund had a fund balance of \$39,598 at the end of the fiscal year. Total expenditures for the Ambulance fund were \$367,257 while total revenue was \$316,238, transfers to support the ambulance fund was \$60,000 coming from the LGEA Fund.

**Pendleton County
Management's Discussion and Analysis
June 30, 2007
(Continued)**

Financial Analysis of the County's Funds (Continued)

7. The Emergency 911 Dispatch Fund accounts for the operation of the County's emergency operations communications. It is supported primarily from 911 Telephone tax, and total revenues were \$253,277. The Fund had a fund balance of \$45,947 at the end of the June 30, 2007 fiscal year.
8. The Mental Health/Mental Retardation Fund had a fund balance of \$54,922 at the end of the fiscal year. The only source of revenue for the Fund is Property Tax and Motor Vehicle Tax.
9. The Micro Fund had a fund balance of \$0 at the end of the fiscal year. The source of revenues for the fund is state grant funds. The fund is used for economic development.

General Fund Budgetary Highlights

The County's General Fund original budget was amended during the fiscal year increasing the operating budget by \$200,968. Budget amendments were made to all areas due to surplus cash carried forward.

Actual operating revenues were \$1,178 more than amount originally budgeted by Fiscal Court.

Actual operating expenditures were \$876,441 less than amount originally budgeted by Fiscal Court.

Capital Assets and Debt Administration

Capital Assets. Pendleton County's investment in capital assets for its governmental activities as of June 30, 2007, amounts to \$4,383,342 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles and current year infrastructure additions.

Major capital asset events during the 2007 fiscal year included the resurfacing of various county roads, purchasing equipment for county road department, county offices, emergency operations center, county dispatch and county ambulance service.

Additional information on the County's capital assets can be found in Note 3 of this report.

Long-Term Debt. At the end of the 2007 fiscal year, Pendleton County had total long-term debt outstanding of \$5,488,174. The amount of this debt due within the next year is \$146,696 and \$5,341,478 is due in subsequent years. This debt is for the Pendleton County Water District Building, the County Garage and waterline extensions as well as \$4,500,000 in Revenue Bond Anticipation notes for construction in process on the new Judicial Center. This debt is described in Note 6 of the notes to the financial statements.

**Pendleton County
Management's Discussion and Analysis
June 30, 2007
(Continued)**

Other matters. The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2007 fiscal year budget:

- At the end of the 2006 fiscal year, the county anticipated an increase in the mineral severance revenue due to some changes Carmeuse Lime made to their plant operations. Due to the down turn in the economy, the changes did not materialize in the way expected. The revenue in 2007 has continued to fall and as the 2008 revenue reports show, we would estimate these reductions to continue.
- Due to mineral severance being one of the county's larger revenue sources the county would be in financial difficulty if it had not taken steps to generate new revenue. The fiscal court passed .05% payroll tax that is generating approximately \$75,000.00 additional dollars over what was anticipated annually. The county also signed a new host agreement with Rumpke, Inc. that generates approximately \$275,000 additional dollars into the budget.
- The lack of a state budget and the financial condition of state revenues may continue to jeopardize county projects and county programs that are state mandated. The Fiscal Court may decide to alter the operations or funding of County operations impacted by State revenue shortfalls.

Requests For Information

This financial report is designed to provide a general overview of Pendleton County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Pendleton County Treasurer, 233 Main Street, Falmouth, KY 41040.

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PENDLETON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

PENDLETON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

	Primary Government Governmental Activities	Component Unit Pendleton County 109 Board
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 6,859,015	\$ 40,503
Note Receivable	5,000	
Total Current Assets	<u>6,864,015</u>	<u>40,503</u>
Noncurrent Assets:		
Note Receivable	65,000	
Capital Assets - Net of Accumulated Depreciation		
Land and Land Improvements	379,903	
Construction In Progress	214,763	
Buildings and Building Improvements	650,832	
Vehicles	397,436	
Equipment	605,384	
Infrastructure Assets - Net of Depreciation	<u>2,135,024</u>	
Total Noncurrent Assets	<u>4,448,342</u>	
Total Assets	<u>11,312,357</u>	
LIABILITIES		
Current Liabilities:		
Financing Obligations	146,696	
Noncurrent Liabilities:		
Bond Anticipation Note	4,500,000	
Financing Obligations	<u>841,478</u>	
Total Noncurrent Liabilities	<u>5,341,478</u>	
Total Liabilities	<u>5,488,174</u>	
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	2,936,764	
Unrestricted	<u>2,887,419</u>	40,503
Total Net Assets	<u>\$ 5,824,183</u>	<u>\$ 40,503</u>

The accompanying notes are an integral part of the financial statements.

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PENDLETON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007

PENDLETON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,184,186	\$ 10,401	\$ 106,039	\$
Protection to Persons and Property	1,433,890	356,165	618,298	47,706
General Health and Sanitation	350,609	370,829	26,834	
Social Services	26,751			
Recreation and Culture	124,625			50,000
Roads	682,901		925,554	
Airports	5,000			
Debt Service	158,980			
Capital Projects	1,355			438,018
Total Governmental Activities	\$ 3,968,297	\$ 737,395	\$ 1,676,725	\$ 535,724
Component Unit:				
Pendleton County 109 Board	\$ 18,751	\$	\$ 22,210	\$

General Revenues:

Taxes:

Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Occupational Taxes
911 Taxes
Mental Health Taxes
Other Taxes

Excess Fees

Miscellaneous Revenues

Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

PENDLETON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

Net (Expenses) Revenues and Changes in Net Assets	
Primary Government	
Governmental Activities	Component Unit
\$ (1,067,746)	\$
(411,721)	
47,054	
(26,751)	
(74,625)	
242,653	
(5,000)	
(158,980)	
436,663	
(1,018,453)	
	3,459
655,389	
63,687	
143,906	
363,239	
168,313	
141,254	
199,146	
52,565	
87,909	2,750
281,867	2,148
2,157,275	4,898
1,138,822	8,357
4,685,361	32,146
\$ 5,824,183	\$ 40,503

The accompanying notes are an integral part of the financial statements.

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PENDLETON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

PENDLETON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

	General Fund	Road Fund	Local Government Economic Assistance Fund	Public Properties Corporation Court Facilities Project Fund	Non- Major Governmental Funds	Total Governmental Funds
ASSETS						
Cash and Cash Equivalents	\$ 810,668	\$ 628,420	\$ 1,195,085	\$ 4,041,596	\$ 183,246	\$ 6,859,015
Total Assets	<u>\$ 810,668</u>	<u>\$ 628,420</u>	<u>\$ 1,195,085</u>	<u>\$ 4,041,596</u>	<u>\$ 183,246</u>	<u>\$ 6,859,015</u>
FUND BALANCES						
Reserved for:						
Encumbrances	\$ 110,067	\$ 27,946	\$ 1,125	\$	\$ 5,743	\$ 144,881
Capital Projects Fund				4,041,596		4,041,596
Unreserved:						
General Fund	700,601					700,601
Special Revenue Funds		600,474	1,193,960		177,503	1,971,937
Total Fund Balances	<u>\$ 810,668</u>	<u>\$ 628,420</u>	<u>\$ 1,195,085</u>	<u>\$ 4,041,596</u>	<u>\$ 183,246</u>	<u>\$ 6,859,015</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 6,859,015
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	5,696,031
Accumulated Depreciation	(1,312,689)
Note Receivables Not Due and Collected in the Current Period and, Therefore,	
are Not Reported in the Funds.	70,000
Long-Term Debt is Not Due and Payable in the Current Period and, Therefore, is Not	
Reported in the Funds.	
Current	(146,696)
Non-Current	<u>(5,341,478)</u>
Net Assets Of Governmental Activities	<u>\$ 5,824,183</u>

The accompanying notes are an integral part of the financial statements

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PENDLETON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

PENDLETON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	General Fund	Road Fund	Local Government Economic Assistance Fund	Public Properties Corporation Court Facilities Project Fund
REVENUES				
Taxes	\$ 1,390,133	\$	\$	\$
Excess Fees	52,565			
Licenses and Permits	3,581			
Intergovernmental	213,262	1,285,965	568,085	
Charges for Services	405,095		12,910	
Miscellaneous	73,876	24,330		
Interest	42,434	53,422	37,409	141,567
Total Revenues	<u>2,180,946</u>	<u>1,363,717</u>	<u>618,404</u>	<u>141,567</u>
EXPENDITURES				
General Government	560,306			
Protection to Persons and Property	243,332		191,313	
General Health and Sanitation	124,927		90,000	
Social Services	25,563		1,188	
Recreation and Culture	94,750		29,875	
Roads		1,463,007		
Airports	5,000			
Debt Service	26,250		161,366	112,853
Capital Projects	1,355	12,200		487,118
Administration	468,362	88,236	764	
Total Expenditures	<u>1,549,845</u>	<u>1,563,443</u>	<u>474,506</u>	<u>599,971</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>631,101</u>	<u>(199,726)</u>	<u>143,898</u>	<u>(458,404)</u>
Other Financing Sources (Uses)				
Transfers To Other Funds	(365,000)		(60,000)	
Transfers From Other Funds				
Bond Anticipation Note-Proceeds				4,500,000
Total Other Financing Sources (Uses)	<u>(365,000)</u>		<u>(60,000)</u>	<u>4,500,000</u>
Net Change in Fund Balances	266,101	(199,726)	83,898	4,041,596
Fund Balances - Beginning	544,567	828,146	1,111,187	
Fund Balances - Ending	<u>\$ 810,668</u>	<u>\$ 628,420</u>	<u>\$ 1,195,085</u>	<u>\$ 4,041,596</u>

The accompanying notes are an integral part of the financial statements.

PENDLETON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES-GOVERNMENTAL FUNDS-MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

Non- Major Governmental Funds	Total Governmental Funds
\$ 309,567	\$ 1,699,700
	52,565
	3,581
179,992	2,247,304
305,403	723,408
489	98,695
7,034	281,866
<u>802,485</u>	<u>5,107,119</u>
	560,306
965,017	1,399,662
134,482	349,409
	26,751
	124,625
	1,463,007
	5,000
	300,469
	500,673
73,349	630,711
<u>1,172,848</u>	<u>5,360,613</u>
 <u>(370,363)</u>	 <u>(253,494)</u>
	(425,000)
425,000	425,000
	4,500,000
<u>425,000</u>	<u>4,500,000</u>
54,637	4,246,506
128,609	2,612,509
<u>\$ 183,246</u>	<u>\$ 6,859,015</u>

The accompanying notes are an integral part of the financial statements.

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**PENDLETON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2007

PENDLETON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds	\$ 4,246,506
Amounts Reported for Governmental Activities in the Statement of Activities Are Different Because Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities, the Cost of Those Assets Are Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.	
Capital Outlay	1,522,299
Depreciation Expense	(283,672)
Notes Receivable Collections are Booked in the Governmental Funds as a Source of Revenue. These Transactions, However, Have No Effect on Net Assets.	
Change in Water District Receivable	(5,000)
The Issuance of Long-term Debt (e.g. Bonds, Financing Obligations) Provides Current Financial Resources to Governmental Funds, While Repayment of Principal on Long-term Debt Consumes the Current Financial Resources of Governmental Funds. These Transactions, However, Have no Effect on Net Assets.	
Bond Anticipation Note Proceeds	(4,500,000)
Financing Obligations Principal Payments	<u>158,689</u>
Change in Net Assets of Governmental Activities	<u>\$ 1,138,822</u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable, are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Pendleton County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Pendleton County Public Properties Corporation

The Board of Directors of the Pendleton County Public Properties are the members of the Pendleton County Fiscal Court. The Corporation was created solely for the benefit of the Fiscal Court per KRS 58.180 to act as an agent in the acquisition and financing of any public project and cannot be sued in its own name without recourse to the Pendleton county Fiscal Court. The Fiscal Court has access to the Corporations resources, is legally obligated to finance the debts, or provide financial support to the corporation. The Corporation is financially accountable to the Fiscal Court. This component unit is blended within the financial statements of the County as the Public Properties Corporation Court Facilities Project Fund.

Discretely Presented Component Unit

The component unit column in the combined financial statements includes the data of the following organization. It is reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Units" to emphasize this organization's separateness from the fiscal court's primary government.

Pendleton County Solid Waste District (109 Board)

The Pendleton County Solid Waste District (109 Board) was created by Ordinance 820.2 pursuant to KRS 109.041 and KRS 67.083. The fiscal court appoints their members. Revenues are based on tonnage received at the landfill and expenditures are to be used for scholarships, educational programs, public information initiatives and/or similar purposes dealing with conservation, environmental, and similar such concerns. The 109 Board was not included in the prior year financial statements. A separate report of the 109 Board has not been issued. The fund financial statements for the Board have been included in supplementary information.

C. Pendleton County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Pendleton County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Pendleton County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities normally are supported by taxes and intergovernmental revenues.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the third Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental). The fiscal court may also designate any fund as major.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Local Government Economic Assistance Fund – The primary purpose of this fund is to account for the general health and sanitation, social services, and economic assistance expenses of the county. The primary sources of revenue are state grants, coal and mineral severance taxes, landfill user fees, and recreational user fees. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Public Properties Corporation Court Facilities Project Fund – The primary purpose of this fund is to account for the proceeds of bond anticipation notes and the construction of a justice center.

The primary government also has the following non-major funds: Jail Fund, Ambulance Fund, Emergency 911 Fund, Mental Health/Mental Retardation Fund, and the Micro Fund.

Special Revenue Funds:

The Road Fund, Local Government Economic Assistance Fund, Jail Fund, Ambulance Fund, Emergency 911 Fund, Mental Health/Mental Retardation Fund, and Micro Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund

Public Properties Corporation Court Facilities Project Fund is a capital projects fund. Capital projects funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Presentation of Component Unit

The financial statements present the following major discretely presented component unit:

Pendleton County Solid Waste District (109 Board)

The component unit is presented on the Statement of Net Assets and the Statement of Activities in a separate total column labeled “Component Unit” to emphasize this organization’s separateness from the fiscal court’s primary government.

E. Deposits and Investments

The government’s cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the governmental activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land	\$ 1	N/A
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 1,000	3-25
Vehicles	\$ 1,000	3-5
Infrastructure	\$ 20,000	10-50

G. Long-term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organizations, Joint Venture, and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Pendleton County Fiscal Court: Pendleton County Water District, East Pendleton Water District, West Pendleton Water District, Airport Board, Conservation District and Library.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture among the Pendleton County Fiscal Court, the City of Falmouth, the City of Butler, and the Pendleton County Schools: Parks and Recreation Agency. The Planning Commission is a joint venture among Pendleton County, the City of Falmouth, and the City of Butler. The Northern Kentucky Regional Hazmat – WMD Response Unit, Inc. is a joint venture among Pendleton, Boone, Campbell, Carroll, Gallatin, Grant, Kenton, Owen, and Scott Counties.

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007
(Continued)

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of February 12, 2007, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Fiscal Court's deposits in accordance with the security agreement, as follows:

- Uncollateralized and Uninsured \$175,988

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 107,548	\$ 272,355	\$	\$ 379,903
Construction In Progress		214,763		214,763
Total Capital Assets Not Being Depreciated	107,548	487,118		594,666
Capital Assets, Being Depreciated:				
Buildings and Building Improvements	847,421			847,421
Vehicles	730,321	55,987		786,308
Equipment	932,325	68,525		1,000,850
Infrastructure	1,556,117	910,669		2,466,786
Total Capital Assets Being Depreciated	4,066,184	1,035,181		5,101,365
Less Accumulated Depreciation For:				
Buildings and Building Improvements	(178,058)	(18,531)		(196,589)
Vehicles	(328,565)	(60,307)		(388,872)
Equipment	(322,490)	(72,976)		(395,466)
Infrastructure	(199,904)	(131,858)		(331,762)
Total Accumulated Depreciation	(1,029,017)	(283,672)		(1,312,689)
Total Capital Assets, Being Depreciated, Net	3,037,167	751,509		3,788,676
Governmental Activities Capital Assets, Net	\$ 3,144,715	\$ 1,238,627	\$ 0	\$ 4,383,342

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 17,636
Protection to Persons and Property	89,609
General Health and Sanitation	1,200
Roads, Including Depreciation of General Infrastructure Assets	175,227
Total Depreciation Expense - Governmental Activities	<u>\$ 283,672</u>

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007
(Continued)

Note 4. Note Receivable

On April 3, 1997, Pendleton County entered into a twenty-year agreement to sublease a 3,700 square foot commercial and office building and land to the Pendleton County Water District. Interest is paid to the county on a monthly basis and a principal payment is made annually to the county until the termination of the sublease in fiscal year ending June 30, 2017, as shown in the following table.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2008	\$ 5,000	\$ 4,330
2009	6,000	3,985
2010	6,000	3,602
2011	6,000	3,220
2012	7,000	2,811
2013-2016	40,000	7,035
Totals	<u>\$ 70,000</u>	<u>\$ 24,983</u>

Note 5. Short-term Debt

In July 2006, Pendleton County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$256,150, with principal being due in January 2007. While the county did not use the borrowed funds in order to meet current General Fund expenses, they were able to reinvest the funds and receive net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program of \$1,750.

Note 6. Long-term Debt

A. Water District Financing Obligation

On April 3, 1997, Pendleton County entered into a twenty-year agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) for the financing and purchase of a 3,700 square foot commercial and office building and land for the Pendleton County Water District. Interest is paid on a monthly basis, and a principal payment is made annually until termination of the lease in fiscal year ending June 30, 2017, as shown in the following table.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2008	\$ 5,000	\$ 4,330
2009	6,000	3,985
2010	6,000	3,602
2011	6,000	3,220
2012	7,000	2,811
2013-2017	40,000	7,035
Totals	<u>\$ 70,000</u>	<u>\$ 24,983</u>

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007
(Continued)

Note 6. Long-term Debt (Continued)

A. Water District Financing Obligation (Continued)

The Pendleton County Fiscal Court subsequently entered into a sublease with the Pendleton County Water District for the building and land. As of fiscal year end, the Water District was in substantial compliance with the terms of the sublease agreement.

B. Financing Obligations with Finance and Administration Cabinet

On February 20, 2003, the Pendleton County Fiscal Court entered into an agreement with the Secretary of the Finance Administration Cabinet to purchase a state maintenance garage to house the county road department. Principal is paid annually in the amount of \$12,200. The following table shows future principal payment requirements.

Fiscal Year Ended June 30	Governmental Activities
	Principal
2008	\$ 12,200
2009	12,200
2010	12,200
2011	12,200
2012	12,200
Totals	<u>\$ 61,000</u>

C. Waterline Extensions Financing Obligation

The Pendleton County Fiscal Court entered into an agreement with Fifth Third Bank to refinance the Pendleton County Public Properties Corporation issued bonds, Certificate of Participation Series 1993. The amount refinanced totaled \$1,511,456. This included principal of \$1,450,000 and refinancing charges of \$61,456. Pendleton County principal payments are due December 1 and June 1 of each year through June 1, 2013. Interest is 3.8% and is payable each December 1 and June 1. The following table shows future principal payment requirements.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 129,496	\$ 31,870
2009	134,617	26,749
2010	139,853	21,512
2011	145,293	16,072
2012	150,920	10,445
2012-2013	156,995	4,590
Totals	<u>\$ 857,174</u>	<u>\$ 111,238</u>

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007
(Continued)

Note 6. Long-term Debt (Continued)

D. First Mortgage Revenue Bond Anticipation Notes, Series 2006

On September 1, 2006, the Pendleton County Public Properties Corporation issued \$4,500,000 in First Mortgage Revenue Bond Anticipation Notes, Series 2006 for the purpose of paying the costs for construction of court facilities. The Series 2006 Notes shall mature on September 1, 2008 bearing interest payable semi-annually on each March 1 and September 1, commencing March 1, 2007.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$	\$ 76,073
2008		170,100
2009	4,500,000	85,050
	<u>\$ 4,500,000</u>	<u>\$ 331,223</u>

E. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Bond Anticipation Note	\$	\$ 4,500,000	\$	\$ 4,500,000	\$
Financing Obligations	<u>1,146,863</u>		<u>158,689</u>	<u>988,174</u>	<u>146,696</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 1,146,863</u>	<u>\$ 4,500,000</u>	<u>\$ 158,689</u>	<u>\$ 5,488,174</u>	<u>\$ 146,696</u>

Note 7. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$116,928 in interest on financing obligations.

**PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007
(Continued)**

Note 8. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 28.21 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 9. Deferred Compensation

Pendleton County Fiscal Court allows all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 10. Insurance

For the fiscal year ended June 30, 2007, Pendleton County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007
(Continued)**

Note 11. Related Party Transactions

On June 13, 2006, the Pendleton County Fiscal Court contracted with Pendleton County E.M.S. Inc. to provide ambulance service for all residents of Pendleton County for the time period July 1, 2006 through June 30, 2007. The contracted price was \$278,278. Mr. Philip Hart owns Pendleton County E.M.S. Inc. His brother, Mark Hart, was a member of the Pendleton County Fiscal Court from February 2007 through November 2007. Mark Hart was not a member of the Pendleton County Fiscal Court at the time the 06-07 contract was approved.

Note 12. Subsequent Events

On January 8, 2008, the Board of Directors of the Pendleton County Public Properties Corporation passed a resolution authorizing the advertisement for bids and the distribution of a preliminary official statement for the purchase of approximately eleven million eight hundred fifteen thousand (\$11,815,000) County of Pendleton Public Properties Corporation First Mortgage Revenue Bonds (Court Facilities Project) And First Mortgage Revenue Bond Anticipation Notes (Court Facilities Project) relating to said bonds for the costs of acquisition, construction, installation of courthouse facilities, and to pay discount, if any, and expenses incurred in the issuance of the bonds and to fund a debt service reserve.

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PENDLETON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007

PENDLETON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2007

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,109,400	\$ 1,109,400	\$ 1,390,133	\$ 280,733
Excess Fees	70,418	70,418	52,565	(17,853)
Licenses and Permits	7,900	7,900	3,581	(4,319)
Intergovernmental Revenue	649,900	649,900	213,262	(436,638)
Charges for Services	296,600	296,600	405,095	108,495
Miscellaneous	33,550	33,550	73,876	40,326
Interest	12,000	12,000	42,434	30,434
Total Revenues	<u>2,179,768</u>	<u>2,179,768</u>	<u>2,180,946</u>	<u>1,178</u>
EXPENDITURES				
General Government	531,615	618,521	560,306	58,215
Protection to Persons and Property	281,650	283,250	243,332	39,918
General Health and Sanitation	534,700	545,895	124,927	420,968
Social Services	23,800	27,910	25,563	2,347
Recreation and Culture	86,480	111,545	94,750	16,795
Airports	11,640	11,640	5,000	6,640
Debt Service	26,300	26,300	26,250	50
Capital Projects	32,000	32,000	1,355	30,645
Administration	697,133	769,225	468,362	300,863
Total Expenditures	<u>2,225,318</u>	<u>2,426,286</u>	<u>1,549,845</u>	<u>876,441</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(45,550)</u>	<u>(246,518)</u>	<u>631,101</u>	<u>877,619</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(413,450)	(413,450)	(365,000)	48,450
Transfers From Other Funds	111,401	111,401		(111,401)
Borrowed Money	4,000	4,000		(4,000)
	<u>(298,049)</u>	<u>(298,049)</u>	<u>(365,000)</u>	<u>(66,951)</u>
Net Changes in Fund Balance	(343,599)	(544,567)	266,101	810,668
Fund Balance - Beginning	<u>343,599</u>	<u>544,567</u>	<u>544,567</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 810,668</u>	<u>\$ 810,668</u>

PENDLETON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,097,290	\$ 1,097,290	\$ 1,285,965	\$ 188,675
Miscellaneous	5,700	5,700	24,330	18,630
Interest	15,000	15,000	53,422	38,422
Total Revenues	<u>1,117,990</u>	<u>1,117,990</u>	<u>1,363,717</u>	<u>245,727</u>
EXPENDITURES				
Roads	1,231,740	1,717,570	1,463,007	254,563
Capital Projects	12,200	12,200	12,200	
Administration	104,150	105,065	88,236	16,829
Total Expenditures	<u>1,348,090</u>	<u>1,834,835</u>	<u>1,563,443</u>	<u>271,392</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(230,100)</u>	<u>(716,845)</u>	<u>(199,726)</u>	<u>517,119</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(111,401)	(111,401)		111,401
Borrowed Money	100	100		(100)
	<u>(111,301)</u>	<u>(111,301)</u>		<u>111,301</u>
Net Changes in Fund Balance	(341,401)	(828,146)	(199,726)	628,420
Fund Balance - Beginning	<u>341,401</u>	<u>828,146</u>	<u>828,146</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 628,420</u>	<u>\$ 628,420</u>

PENDLETON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts,</u> <u>(Budgetary</u> <u>Basis)</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental Revenue	\$ 406,000	\$ 406,000	\$ 568,085	\$ 162,085
Charges for Services	27,000	27,000	12,910	(14,090)
Miscellaneous	1,000	1,000		(1,000)
Interest	6,000	6,000	37,409	31,409
Total Revenues	<u>440,000</u>	<u>440,000</u>	<u>618,404</u>	<u>178,404</u>
EXPENDITURES				
General Government	600	600		600
Protection to Persons and Property	148,450	201,710	191,313	10,397
General Health and Sanitation	15,000	90,000	90,000	
Social Services	2,000	2,000	1,188	812
Recreation and Culture	30,327	30,327	29,875	452
Roads	100	100		100
Debt Service	161,700	161,700	161,366	334
Administration	81,823	243,158	764	242,394
Total Expenditures	<u>440,000</u>	<u>729,595</u>	<u>474,506</u>	<u>255,089</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)		<u>(289,595)</u>	<u>143,898</u>	<u>433,493</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	<u>(125,050)</u>	<u>(125,050)</u>	<u>(60,000)</u>	<u>65,050</u>
	<u>(125,050)</u>	<u>(125,050)</u>	<u>(60,000)</u>	<u>65,050</u>
Net Changes in Fund Balance	(125,050)	(414,645)	83,898	498,543
Fund Balance - Beginning	<u>125,050</u>	<u>414,645</u>	<u>1,111,187</u>	<u>696,542</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,195,085</u>	<u>\$ 1,195,085</u>

PENDLETON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2007

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**PENDLETON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2007

PENDLETON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2007

	Jail Fund	Ambulance Fund	Emergency 911 Fund	Mental Health Mental Retardation Fund	Total Non-Major Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 42,779	\$ 39,598	\$ 45,947	\$ 54,922	\$ 183,246
Total Assets	<u>\$ 42,779</u>	<u>\$ 39,598</u>	<u>\$ 45,947</u>	<u>\$ 54,922</u>	<u>\$ 183,246</u>
FUND BALANCES					
Reserved for:					
Encumbrances	\$ 3,183	\$ 414	\$ 2,146	\$	\$ 5,743
Unreserved:					
Special Revenue Funds	<u>39,596</u>	<u>39,184</u>	<u>43,801</u>	<u>54,922</u>	<u>177,503</u>
Total Fund Balances	<u>\$ 42,779</u>	<u>\$ 39,598</u>	<u>\$ 45,947</u>	<u>\$ 54,922</u>	<u>\$ 183,246</u>

The accompanying notes are an integral part of the financial statements.

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PENDLETON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2007

PENDLETON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2007

	Jail Fund	Ambulance Fund	Emergency 911 Fund	Mental Health Mental Retardation Fund
REVENUES				
Taxes	\$	\$	\$ 168,313	\$ 141,254
Intergovernmental	81,954	10,684	82,889	
Charges for Services		304,959		444
Miscellaneous	275	200	14	
Interest	1,685	395	2,061	2,893
Total Revenues	<u>83,914</u>	<u>316,238</u>	<u>253,277</u>	<u>144,591</u>
EXPENDITURES				
Protection to Persons and Property	381,828	367,257	211,467	
General Health and Sanitation				134,482
Administration	16,907		56,442	
Total Expenditures	<u>398,735</u>	<u>367,257</u>	<u>267,909</u>	<u>134,482</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(314,821)</u>	<u>(51,019)</u>	<u>(14,632)</u>	<u>10,109</u>
Other Financing Sources (Uses)				
Transfers To Other Funds				
Transfers From Other Funds	330,000	60,000	35,000	
Total Other Financing Sources (Uses)	<u>330,000</u>	<u>60,000</u>	<u>35,000</u>	
Net Change in Fund Balances	15,179	8,981	20,368	10,109
Fund Balances - Beginning	27,600	30,617	25,579	44,813
Fund Balances - Ending	<u>\$ 42,779</u>	<u>\$ 39,598</u>	<u>\$ 45,947</u>	<u>\$ 54,922</u>

The accompanying notes are an integral part of the financial statements.

PENDLETON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2007
(Continued)

Micro Fund	Total Non-Major Governmental Funds
\$	\$ 309,567
4,465	179,992
	305,403
	489
	7,034
4,465	802,485
4,465	965,017
	134,482
	73,349
4,465	1,172,848
	(370,363)
	425,000
	425,000
	54,637
	128,609
\$ 0	\$ 183,246

The accompanying notes are an integral part of the financial statements.

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PENDLETON COUNTY 109 BOARD
A COMPONENT UNIT OF PENDLETON COUNTY
BALANCE SHEET - GOVERNMENTAL FUND - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2007

PENDLETON COUNTY 109 BOARD
A COMPONENT UNIT OF PENDLETON COUNTY
BALANCE SHEET - GOVERNMENTAL FUND - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2007

	<u>General Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ 40,503
Total Assets	<u>\$ 40,503</u>
FUND BALANCE	
Unreserved	\$ 40,503
Total Fund Balance	<u>\$ 40,503</u>

The accompanying notes are an integral part of the financial statements.

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PENDLETON COUNTY 109 BOARD
A COMPONENT UNIT OF PENDLETON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2007

PENDLETON COUNTY 109 BOARD
A COMPONENT UNIT OF PENDLETON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2007

	General Fund
REVENUES	
Miscellaneous	\$ 27,109
Total Revenues	<u>27,109</u>
EXPENDITURES	
Educational	14,700
General	<u>4,052</u>
Total Expenditures	<u>18,752</u>
Net Change in Fund Balance	8,357
Fund Balance - Beginning	<u>32,146</u>
Fund Balance - Ending	<u><u>\$ 40,503</u></u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Henry W. Bertram, Pendleton County Judge/Executive
Members of the Pendleton County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Pendleton County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated April 21, 2008. Pendleton County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pendleton County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pendleton County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Pendleton County's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Pendleton County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

April 21, 2008

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**


PENDLETON COUNTY FISCAL COURT

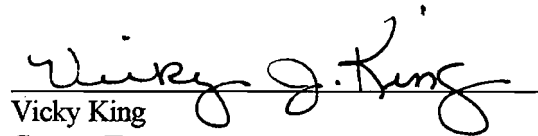
**For The Fiscal Year Ended
June 30, 2007**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
PENDLETON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2007

Pendleton County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Henry W. Bertram
County Judge/Executive


Vicky King
County Treasurer